CASE STUDY

Building a Smart Company Culture

SmartPak

The Story | Fast growing companies would do well to pay close attention to creating a strong company culture, says Paal Gisholt, CEO of SmartPak, a 12-year-old manufacturer of custom animal supplements based in Plymouth, MA. But he stresses that general guidelines are called for, not “hyper directives.”

Gisholt and his wife, co-founder Becky Minard, built their business model around the advice of an early mentor. “He said that if you want to be innovative and grow, you should help people make good decisions by creating a great culture,” Gisholt recalls. “People who work best in a highly controlled environment may not break the mold for you and be innovative.”

Engagement Strategies | SmartPak’s culture was created and is reinforced by the company’s well crafted values statement and employee recognition program called SMARTER: speed, maniacal customer service, analysis, risk taking, teamwork, execution, and respect. A peer nomination process identifies one employee quarterly that best exemplifies each of the SMARTER categories. The nomination committee seats rotate across departments, allowing employees to build relationships with people outside of their division. The winners, celebrated at quarterly company-wide meetings, receive a $250 check. Employees stay motivated on an ongoing basis by striving to win all seven core value awards, which earns them a $1,000 check and lots of company-wide recognition. “The SMARTER program keeps our core company values front of mind – they are not just words on a wall,” says Gisholt. “All employees know them by heart.”

Care for employees extends to care for customers. Gisholt says the company has differentiated itself in the small but competitive custom-made animal supplements market through exceptional customer service, regularly outpacing its industry in sales by 5% to 10%. As Gisholt explains, “it is really hard to ask your team to treat customers really well if they’re not being treated well themselves.”

Unlike its competitors, SmartPak's sales and service representatives are salaried rather than hourly, with good benefits and nearly twice the rate of pay of others in the industry. "It's a huge premium but we ask more, we train them a lot more heavily, and we expect them to really connect with customers," Gisholt explains.

SmartPak mostly promotes from within, which means that many executives cut their teeth in customer facing positions. And although turnover is low, under 10%, Gisholt says a certain amount of turnover is fine. The most important thing is that the right people are in the right positions. "We're VC-backed with aggressive growth ambitions," he says. "We want to field the best team we can have who will play hard, play smart, and have fun."

Shared Ownership | SmartPak offers lessons learned from their employee gain sharing program. At the beginning, equity was shared with all employees. But Gisholt said his experience was that the tax implications were complicated for employees and after the dot com bubble, many did not put value in them. SmartPak decided to share equity only with top management and to compensate the rest of the employees "in the currency they value most:" short-term cash-related gain sharing.

The gain sharing is team-based to encourage team behavior and is based on three metrics: the amount of time per order, the quality level,

AT A GLANCE SMARTPAK

Location:
Plymouth, MA
Business:
Customized packs of supplements/food for horses and dogs
Employees:
230
Revenues:
$63.4mm (year ended May 2010)
Ownership:
Gain sharing and bonuses for all, stock options for highest impact executives
Engagement:

- high involvement hiring
- extensive training
- promotion from within
- employee recognition program
- gain sharing and bonuses for all employees

Business result:

- superior customer retention
- largest direct marketer of their product even during recession

and days ahead of shipping goal. It is possible for the team to make a full or partial bonus or none at all depending on how the month went, says Gisholt. If there is no surplus to distribute, there is no bonus. "This system aligns the businesses' incentives to the peoples' incentives," he explains. "People pay attention to the numbers and urge each other to set new records. It makes things more fun."

Business Results | In addition to leading in industry sales rates, SmartPak has survived its share of storms largely because of its culture. In 2007, for example, there was a widespread recall of pet foods with ingredients manufactured in China, thought to be contaminated by a toxic chemical. The incident could have spurred a major catastrophe for the company. To add to the challenge, SmartPak's owners were vacationing with their family when the news hit. But because the company had a plan in place and a well trained management team still on the ground back at headquarters, SmartPak's recall plan went off without a hitch.

Gisholt credits his firm's strong culture for SmartPak's ability to respond to that major curveball. "If you have a good culture, people will make generally good decisions," he says. "Not always the decisions you [as CEO or management] would make, but their decisions will be ten times better than if you have only control procedures."

Ultimately, the company's high involvement hiring, training, motivation and recognition, and metrics-linked gain sharing programs all add up. For Gisholt, "a culture of engaged employees has allowed us to survive and thrive even in a recession."

LESSONS LEARNED

- Link employee recognition programs to core company values to keep those values top of mind for all employees.
- Likewise, link gain sharing with key business metrics so that employees truly understand what makes the company successful.
- Allow for mid-course corrections in your firm's incentive structure to make sure it continues to motivate employees.
- A strong company culture of empowered employees who understand the company's core values makes any storm easier to navigate.